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Royal Canadian Ventures Ltd.

ANNUAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 1970

A member of the DYNAMIC GROUP

ANNUAL REPORT

September 30, 1970

Royal Canadian Ventures Ltd.

(Incorporated under the laws of Alberta)

*A member of the Dynamic Group**

DIRECTORS

ARCHIBALD PARK NEWALL, JR., *Calgary*
FRANK BROWN, *Calgary*
ROBERT CLIVE BROWN, *Calgary*

OFFICERS

ARCHIBALD PARK NEWALL, JR., *President*
FRANK BROWN, *Vice-President*
ROBERT CLIVE BROWN, *Secretary-Treasurer*

HEAD OFFICE

210, 736 - 8TH AVENUE S.W.
CALGARY 2, ALBERTA

AUDITORS

PEAT, MARWICK, MITCHELL & CO., *Calgary*

BANKER

THE ROYAL BANK OF CANADA, *Calgary*

REGISTRAR

GUARANTY TRUST COMPANY OF CANADA, *Calgary*

TRANSFER AGENT

GUARANTY TRUST COMPANY OF CANADA, *Calgary & Vancouver*

SHARES LISTED

VANCOUVER STOCK EXCHANGE, *Vancouver*

* The term "Dynamic Group of Companies" is used to refer to the following companies collectively: Permo Gas & Oil Limited and its subsidiaries, New Continental Oil Company of Canada Limited and Consolidated East Crest Oil Company Limited, together with affiliated companies, Dynamic Petroleum Products Ltd., Royal Canadian Ventures Ltd., Mill City Petroleum Limited, Crusade Petroleum Corporation Limited, Dynalta Oil & Gas Co. Ltd. and Dynamic Mining Exploration Ltd. (No Personal Liability). These companies are separate and distinct Canadian corporations having an interlocking directorate, interlocking share positions, common management and the same executive offices.

TO THE SHAREHOLDERS

The annual report and financial statements of the company for the year ended September 30, 1970 are presented herewith.

During the year under review the company continued to participate with associated companies within the Dynamic Group in numerous widespread mineral exploration programs in the Provinces of British Columbia, Saskatchewan and Manitoba and in the Northwest Territories. These programs, which are covered in greater detail elsewhere in this report, have resulted in the proving up of additional reserves of uranium in the Baker Lake region of the Northwest Territories and of substantial tonnages of low-grade porphyry copper ore in the Barriere Lake area near Kamloops, British Columbia. Many other mineral prospects in western Canada have been up-graded to the stage where they are now ready for diamond drilling.

The exploration and development operations conducted by Gulf Minerals Company in the Wollaston Lake area of the Province of Saskatchewan are of particular significance to our shareholders. These operations are hereinafter covered in greater detail and it is sufficient to reiterate here that the Rabbit Lake ore body has been defined and very substantial uranium reserves have been proven. Furthermore, a joint venture agreement between Gulf Minerals Canada Limited and Uranerz Canada Limited has been finalized which will, among other things, provide for the marketing of all U_3O_8 in the form of uranium concentrate produced from a mine-mill complex to be built at a cost of approximately \$50,000,000. The mill will be capable of processing 2,000 tons of ore per day, or 680,000 tons per year (340 working days) from the Rabbit Lake ore body. In addition, Gulf's exploratory operations have outlined several new uranium prospects which will be evaluated during 1971 by diamond drilling.

Due, in the main, to increased exploration expenditures and a substantial decrease in gains from the sale of properties, operations for the year under review resulted in a net loss of \$31,019 as compared with a net profit of \$116,945 during the preceding year. Working capital decreased during the year from \$261,360 to \$246,681.

Accompanying this report are schedules showing the company's interests in petroleum and natural gas and mineral properties at September 30, 1970.

The directors wish to express their appreciation to the shareholders for their interest in the affairs of the company and to the employees for their loyalty and personal interest in our activities.

On behalf of the Board,

A. P. NEWALL, Jr.
President

January 29, 1971.

MINING EXPLORATION AND DEVELOPMENT

BRITISH COLUMBIA

In the Province of British Columbia the Dynamic Group of companies operates under the name of Royal Canadian Ventures Ltd. from an office in Kamloops, B.C. During 1970 an active mining exploration program was continued. Several new properties were added, others were up-graded, while some were surrendered. Activities have been largely centered around the Kamloops area and northward as far as Kliyu Creek. At December 31, 1970 a total of 1,254 mineral claims and 2 mineral leases were held by the Group in 18 separate properties. The various properties are shown by areas on the map of British Columbia accompanying this report. Following are more detailed particulars pertaining to certain of these areas. The company has a 14.3% working interest in these properties with the exception of Areas 17, 18 and 19.

Area 1

In this area the Dynamic Group holds 80 mineral claims known as the Kliyu Creek Group located approximately 64 miles northwest of Finlay Forks, B.C. These claims were staked on a strong stream copper anomaly as a result of the original geochemical survey. Extensive areas of pyrite mineralization are present and additional work on the property is planned during 1971.

Area 3

In this area which is located about 48 miles northwest of Endako, B.C., the Dynamic Group holds 107 mineral claims known as the Babine Lake Group of which 70 claims were staked during 1970. To date extensive geologic mapping, geochemical and geophysical surveys have been conducted on the property. Further work on the property is planned during 1971.

Area 4

In this area which is located approximately 50 miles southwest of Williams Lake, B.C., the Dynamic Group holds 174 mineral

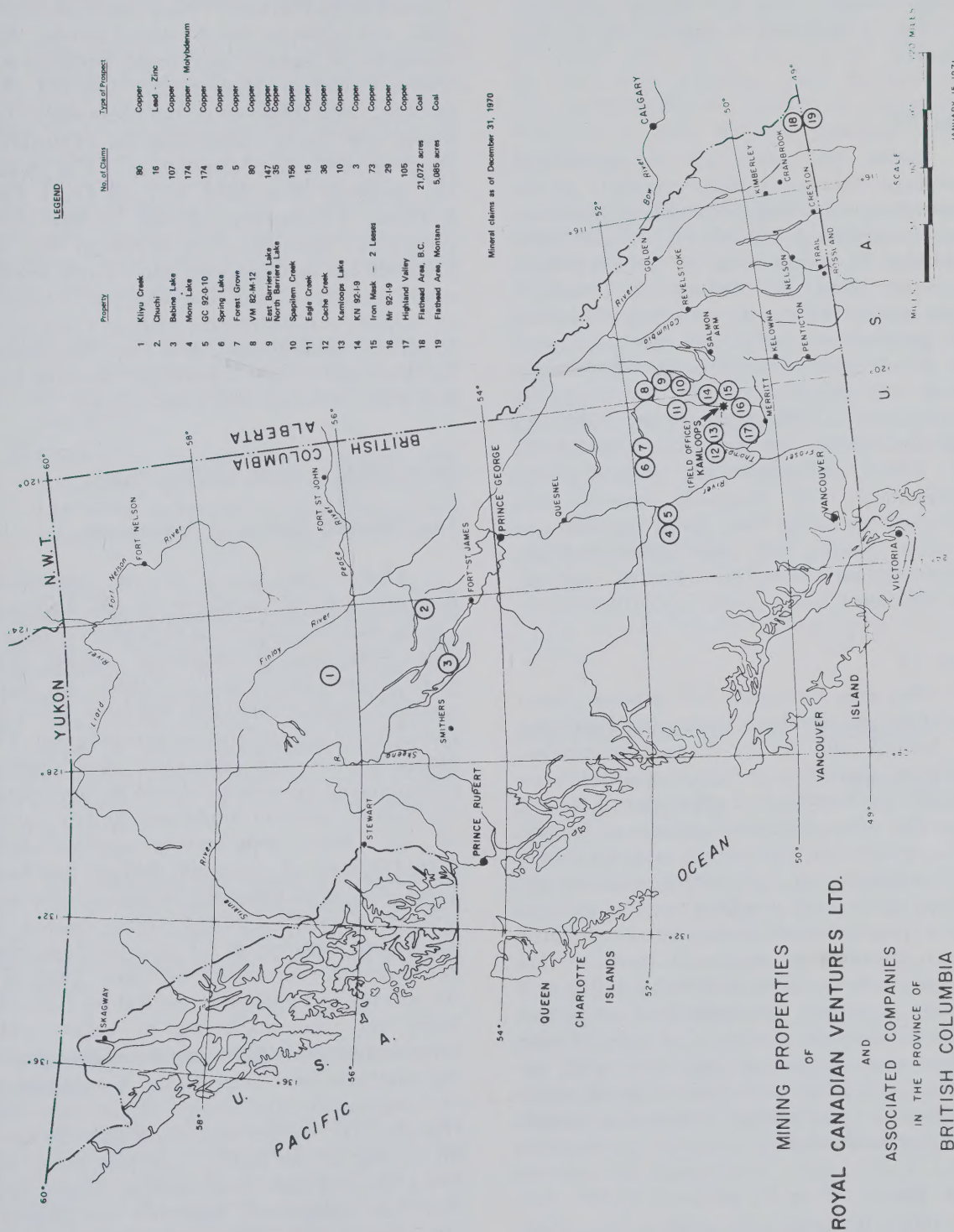
claims. A geochemical anomaly located on the property in 1969 was further explored in 1970 and additional claims were staked. An induced polarization survey was completed during the summer of 1970, resulting in the delineation of an anomaly which is coincident with the geochemical anomaly. Discussions are now being conducted with major mining companies with a view to farming out this property for further exploration during 1971. As a result of the work done on the Mons Lake Group of claims in this area, another 174 claims were staked in the same general area which are shown as Area 5 (GC 92-0-10) on the map accompanying this report.

Area 6 & 7

These two areas, originally containing 32 mineral claims, have now been reduced to 13 mineral claims as a result of additional information obtained during 1970. The drilling of a test hole was attempted on Area 6, but was abandoned before reaching bedrock because of overburden conditions and a further program was postponed. On Area 7 a mercury geochemical survey was carried out during 1970 over the magnetic anomaly located in 1969.

Areas 9 & 10

These areas contain a total of 338 mineral claims located in the Barriere Lake region approximately 50 miles north-northeast of Kamloops, B.C. Under the terms of a farmout agreement between various members of the Dynamic Group and Rayrock Mines Limited, a portion of this property was tested during the summer of 1970 by geochemical and induced polarization surveys, mapping and 12 percussion drill holes. As a result of this program and previous drilling conducted by the Dynamic Group, a substantial tonnage of low-grade porphyry copper ore has been proven up. Rayrock, however, did not exercise its option to proceed further with the program, with the result that the property reverted back 100% to the



Mineral claims as of December 31, 1970

MINING PROPERTIES
OF
ROYAL CANADIAN VENTURES LTD.
AND
ASSOCIATED COMPANIES
IN THE PROVINCE OF
BRITISH COLUMBIA

JANUARY 15, 1971

MINING EXPLORATION AND DEVELOPMENT

Dynamic Group. Negotiations with a major mining company are now being conducted for the continuing exploration of this property.

Area 15

Under the terms of an exploration agreement between various members of the Dynamic Group and Great Plains Development Company of Canada Ltd., Great Plains continued its exploration of the Iron Mask group of 73 mineral claims and 2 mineral leases during 1970, using various geochemical and geophysical techniques. 48 percussion and 12 diamond drill holes have been completed. Great Plains will continue its examination of this property in 1971. 29 additional claims in Area 16 (MR 92-I-9) were staked adjacent to the original group. Geochemical and magnetic surveys and geological mapping have been carried out on this group and results obtained are sufficiently interesting that further examination will be undertaken during 1971.

Area 17

This area comprises 84 mineral claims located in the Highland Valley area bordering the Lornex and Valley Copper properties, which are owned as to 50% by the company and 50% by Northlode Explorations Limited. Great Plains Development Company of Canada Ltd. conducted an exploration program during 1970 consisting of line cutting, geochemical surveys, geological mapping and an induced polarization survey, following which it decided not to exercise its option to earn a 51% interest in these claims. Notwithstanding this decision, company geologists have examined all available information and are of the opinion that there is a large area, with no outcrop, which has coincident induced polarization and geochemical anomalies which should be evaluated.

Area 18

This is a coking coal prospect containing 21,072 acres of coal leases, owned by Mill City Petroleum Limited as to 90% and by

Royal Canadian Ventures Ltd. as to 10% located in the Flathead Valley south of Fernie, B.C. and close to the Montana border. Pursuant to an option agreement between Rio Tinto Canadian Exploration Limited (Rio Canex), Mill City and the company, Rio Canex has been conducting an exploration program since late summer of 1970 to test the property now held by Sage Creek Coal Limited, a company formed by the three companies involved. If it is proven that the property can be developed into a viable mining operation, Rio Canex may exercise its option to acquire a 60% interest in Sage Creek Coal Limited. At that time, Mill City Petroleum Limited and Royal Canadian Ventures Ltd. will own 36% and 4%, respectively.

NORTHERN SASKATCHEWAN

Gulf Minerals Company Agreement

Under the terms of the agreement between various members of the Dynamic Group and Gulf Minerals Company considerable work was accomplished during 1970 and, from inception in 1968 to date, approximately \$5,000,000 has been spent by Gulf Minerals Company on this program. The highlight was the extensive development drilling program which defined in more detail the Rabbit Lake ore body and to date a total of 227 holes representing approximately 130,000 feet of diamond drilling has been completed. Gulf Minerals Canada Limited and Uranerz Canada Limited were formed to implement the terms of the joint venture development negotiated in late 1969 for the mining and milling of the Rabbit Lake ore body and the marketing of yellow cake (uranium oxide) in Germany. Several engineering contracts have been finalized in regard to the engineering and design of the mine-mill complex, the studies associated with the open pit mining of the Rabbit Lake ore body, the town site and associated services. Heavy construction equipment, materials and supplies are being moved in this winter in preparation for mill site clearing and construction, pit development, air strip improvement and

MINING EXPLORATION AND DEVELOPMENT

initial camp site construction with connecting roads, power facilities and other services.

Concurrent with the development of the Rabbit Lake ore body, Gulf Minerals Company continued its aggressive minerals exploration program on the remainder of the properties which are the subject of the Gulf Minerals agreement. During the 1970 season approximately 70 people, mainly geologists, prospectors and other technical personnel were employed on the properties. These were divided into:

- (a) Ground geophysical prospecting parties who completed definitive ground checks of aerial electromagnetic and magnetic anomalies.
- (b) Geological reconnaissance groups who completed ground checks on many of the aerial radiometric anomalies and also examined selected geological features.

During the early part of 1970 some anomaly drilling was undertaken on prospects resulting from airborne surveys and previous ground follow-up. As a result of the detailed exploration program conducted during the past prospecting season, Gulf Minerals has a number of additional prospects ready for drilling during the winter of 1971 and drilling has commenced on two of these at the date of this report.

The company has a direct 12.5% interest in, 10% of the net profits before pay-out and 20% of the net profits after pay-out, accruing under the terms of the Gulf Minerals agreement.

Westburne Petroleum & Minerals Ltd. Agreement

The area which is the subject of this agreement comprises two mineral exploration permits held jointly by the company and New Continental Oil Company of Canada Limited. Under the terms of the agreement entered into with Westburne Petroleum & Minerals Ltd., a subsidiary of Westburne International Indus-

tries Ltd., Westburne has acquired a 40% undivided working interest in each permit subject to their expending on each permit on or before December 31, 1972, the sum of \$850,000 by way of exploration and development. The company is the operator of this project and has a 20% working interest in the property.

Certain anomalous areas on these lands were selected for a winter geophysical and drilling program which commenced in January 1970. Five diamond drill holes were put down on the property prior to the spring break-up in early 1970, one to test each of five separate conductors indicated by the airborne electromagnetic-magnetic survey and ground follow-up. In each case the indicated conductor was located but was found to be either graphite or iron sulphide.

All necessary additional ground geophysical prospecting and ground follow-up to the airborne indicated anomalies was completed and many conductors outlined. These are now ready for testing by diamond drilling.

Scurry-Rainbow Oil Ltd. Agreement

The lands which are the subject of this agreement originally comprised one mineral exploration permit held jointly by the company and New Continental Oil Company of Canada Limited. The company will have a 20% working interest in this property after Scurry-Rainbow has earned an interest therein under the terms of our agreement. During 1970 Scurry-Rainbow elected to be the operator and as such carried out additional ground geophysical exploration and prospecting of the property during the past summer season. Ground follow-up and examination of anomalies indicated by the previous airborne radiometric, electromagnetic and magnetic surveys was completed. Claim blocks were then staked covering all of the better anomalies and conductors. Diamond drilling of the property is to commence in January, 1971.

MINING EXPLORATION AND DEVELOPMENT

Head Lake Property

This area, comprising 27,635 acres of mineral claims, lies in the Head Lake region, northwest of La Ronge, Saskatchewan, near a rumored nickel discovery. Airborne magnetics and electromagnetics have been conducted over these properties. No surface evaluation has been done to date but is being considered for the 1971 prospecting season. The company has a 14.3% interest in this property.

Wollaston Lake Southwest Area

This area originally comprised three mineral exploration permits containing some 555,800 acres held 100% by various members of the Dynamic Group. During the summer of 1969 a combined radiometric, electromagnetic and magnetic airborne survey conducted over these lands indicated numerous radioactive anomalies and conductors. During that summer some radioactive anomalies were checked out on the ground. The balance were checked out by ground geophysics and prospecting during the summer of 1970. Mineral claim blocks will be staked to cover all of the better radioactive anomalies and conductors and the next step will be to evaluate these by diamond drilling. The company has a 12.5% interest in these properties.

NORTHERN MANITOBA

Scurry-Rainbow Oil Ltd. Agreement

The lands which are the subject of this agreement originally comprised four mineral reservations held by Royal Canadian Ventures Ltd., New Continental Oil Company of Canada Limited, Dynamic Petroleum Products Ltd. and Permo Gas & Oil Limited. The company will have a 10% interest in this property after Scurry-Rainbow has earned an interest therein under the terms of our agreement. During 1970 Scurry-Rainbow elected to be the operator and as such continued during the summer of 1970 with

ground geophysical surveys and prospecting of both radioactive anomalies and conductors indicated by the airborne survey which had been carried out during 1969. Claim blocks have been staked covering all of the better prospects. The next step in evaluation of these properties will be diamond drilling of these prospects.

NORTHWEST TERRITORIES

During 1970 the Dynamic Group continued an active mineral exploration program in the Northwest Territories. The program was confined mainly to two areas where significant uranium discoveries were made in the summer and fall of 1969.

Baker Lake Area

Under the terms of an agreement between various members of the Dynamic Group, Petrobec Limited (a subsidiary of Westburne International Industries Ltd.) and Citizens Pipeline Limited, exploration of certain mineral exploration permits in the Baker Lake area was commenced in the summer of 1969. As a result of this exploration, two significant discoveries of uranium and molybdenum were made which have previously been reported in detail to our shareholders. Following this, additional mineral exploration permits were obtained early in 1970.

The 1970 mineral exploration program in this area was commenced about the middle of May and completed about the end of September. The program was divided into two parts:

- (a) Locating on the ground, prospecting and geological mapping of all radioactive anomalies indicated by the previous airborne radiometric survey over these lands. Trenching and sampling were also done where warranted.
- (b) Detailed prospecting, geological mapping, trenching and sampling, ground geophysi-

MINING EXPLORATION AND DEVELOPMENT

cal surveying, and diamond drilling in the vicinity of the two discoveries which had been made in the previous year. Considerable ground magnetometer coverage was obtained.

As a result of the diamond drilling of 12 holes representing 2,234 feet on the mainland discovery, it was found to be discontinuous uranium mineralization in a steeply-dipping dyke-like structure. The likelihood of the occurrence of similar structures in the area is good. Additional exploratory work including diamond drilling in the area is justified.

As a result of 20 diamond drill holes representing 3,852 feet in the vicinity of the second discovery (the Christopher Island discovery) it was found to be surface or near surface uranium and molybdenum mineralization which appears to be associated with a flat-lying or bedded structure of limited extent. Based on the results known to date, further exploratory work is justified.

As a result of the 1970 mineral exploration program in this area a great deal of additional valuable information has been obtained. A substantial amount of ore grade mineral has been proven up but the area still requires further detailed exploration and drilling. Future plans for this area will be based on the results of a detailed study of all of the information available to date. This study is now in progress. The company has a 5.714% interest in these properties.

Kazan Falls Area

The Dynamic Group conducted extensive airborne surveys over the Kazan Falls region of the Northwest Territories in 1969. As a result of these surveys and considerable ground follow-up, 791 mineral claims were staked on the anomalous areas where uranium mineralization has been delineated on the ground and three mineral prospecting permits comprising approximately 480,000 acres were acquired early in 1970.

An exploration agreement was then entered into with Dynamic Mining Exploration Ltd. (No Personal Liability) under the terms of which Dynamic Mining acquired an undivided 25% interest in these properties and has the option to earn up to 50%.

During the summer of 1970 an extensive mineral exploration program was carried out over these properties by the Dynamic Group and Dynamic Mining. It consisted of two phases:

- (a) Locating on the ground, geological mapping, and prospecting of all radioactive anomalies indicated by the previous airborne radiometric survey. Where warranted, trenching and sampling were also carried out.
- (b) Detailed prospecting, geological mapping, ground geophysics and diamond drilling of the Kazan Falls radioactive anomaly which was covered by claims staked in the fall of 1969. Trenching and sampling were also carried out where warranted. Five diamond drill holes totalling 2,274 feet were put down on the 69-4 showing. The approach of bad weather and freezing conditions, plus a fire which destroyed the drilling rig, prevented a considerable amount of additional planned drilling.

Investigations to date suggest that the uranium mineralization is very similar to the Beaver Lodge type of deposit and the 69-4 showing contains appreciable amounts of uranium and represents a potential ore deposit. Three main north-south zones have been located to date. Two of the zones have been tested by diamond drilling and all three are in effect open at the north and south extremities and at depth. The No. 2 zone uncovered at the end of the season is perhaps the strongest structurally and holds much potential. Additional diamond drilling is therefore required and would rank first among plans for future evaluation of this area. The Company has a 10.715% interest in these properties.

ASSETS

	1970	1969
CURRENT		
Cash	\$ 219	\$ 21,383
Short term deposits	195,000	75,000
Accounts receivable	11,633	47,305
Marketable securities - at cost (quoted market value 1970 - \$25,813; 1969 - \$120,604)	30,494	139,636
Work in progress	15,858	16,271
	<u>253,204</u>	<u>299,595</u>
INVESTMENTS - AT COST		
1,068,854 Shares of Mill City Petroleums Limited (quoted market value 1970 - \$2,298,036; 1969 - \$2,565,250)	356,962	356,962
Shares of other companies	7,337	7,335
	<u>364,299</u>	<u>364,297</u>
PROPERTY, PLANT AND EQUIPMENT - AT COST (NOTE 1)		
Producing properties	287	444
Well development costs	170,404	248,408
Non-producing properties	19,054	18,672
Production and other equipment	70,219	76,388
	<u>259,964</u>	<u>343,912</u>
Less accumulated depletion and depreciation	134,545	202,151
	<u>125,419</u>	<u>141,761</u>
	<u>\$742,922</u>	<u>\$805,653</u>

Ventures Ltd.

SHEET

30, 1970

figures for 1969)

LIABILITIES

	1970	1969
CURRENT		
Bank loan - secured	\$ 100	\$ 100
Accounts payable and accrued liabilities	6,423	38,135
	<u>6,523</u>	<u>38,235</u>
SHAREHOLDERS' EQUITY		
Capital stock:		
Common shares of no par value.		
Authorized 5,000,000 shares;		
Issued 4,400,723 shares	1,322,664	1,322,664
Deficit	586,265	555,246
	<u>736,399</u>	<u>767,418</u>
Approved on behalf of the Board:		
ARCHIE P. NEWALL, JR., Director		
R. C. BROWN, Director		
	\$742,922	\$805,653

rying notes.

Royal Canadian Ventures Ltd.

STATEMENT OF INCOME AND DEFICIT

Year Ended September 30, 1970

(with comparative figures for 1969)

	1970	1969
REVENUE		
Crude oil and natural gas sales, less royalties	\$ 98,509	\$103,589
Less production expenses	30,271	24,692
	<u>68,238</u>	<u>78,897</u>
Royalties	761	697
Interest	12,556	4,647
Other	2,143	714
	<u>83,698</u>	<u>84,955</u>
EXPENSE		
Administrative and general	45,460	42,066
Exploration and survey costs	101,904	74,664
Property carrying costs (lease rentals, etc.)	1,908	3,885
Interest	110	108
	<u>149,382</u>	<u>120,723</u>
CASH LOSS FROM OPERATIONS	<u>65,684</u>	<u>35,768</u>
ADD		
Depletion	4,708	15,274
Depreciation	2,654	4,086
Abandonments:		
Petroleum and natural gas and mining interests	500	5,764
Well development costs	—	270
	<u>7,862</u>	<u>25,394</u>
DEDUCT		
Gain on sale of securities	6,783	—
Gain (loss) on sale of equipment	1,421	(2,530)
Gain on sale of properties	34,323	180,637
	<u>42,527</u>	<u>178,107</u>
NET LOSS (PROFIT) FOR THE YEAR	31,019	(116,945)
DEFICIT, beginning of year	555,246	672,191
DEFICIT, end of year	<u>\$586,265</u>	<u>\$555,246</u>

See accompanying notes.

Royal Canadian Ventures Ltd.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year Ended September 30, 1970

(with comparative figures for 1969)

	1970	1969
SOURCE OF FUNDS		
Proceeds from sale of properties	\$ 46,929	\$193,333
Proceeds from sale of investments	1,008	—
Gain on sale of marketable securities	5,813	—
Decrease in performance deposits	—	21,781
	<u>53,750</u>	<u>215,114</u>
APPLICATION OF FUNDS		
Cash loss from operations	65,684	35,768
Mining interests	1,000	2,000
Well development costs, including dry holes	—	411
Production and other equipment — net	1,705	1,529
Investment in shares of other companies	40	—
	<u>68,429</u>	<u>39,708</u>
DECREASE (INCREASE) IN WORKING CAPITAL	14,679	(175,406)
WORKING CAPITAL, beginning of year	<u>261,360</u>	<u>85,954</u>
WORKING CAPITAL, end of year	<u>\$246,681</u>	<u>\$261,360</u>

See accompanying notes.

Royal Canadian Ventures Ltd.

NOTES TO FINANCIAL STATEMENTS

September 30, 1970

1. ACCOUNTING POLICY

The Company's policy is to capitalize the acquisition costs of petroleum and natural gas and mining interests together with development costs thereon. Carrying costs and exploration expenses are charged against income as incurred. Acquisition costs of producing properties together with related development costs and production equipment are written off on a unit of production basis. The costs of non-producing properties and unproductive development are charged against income in the year of abandonment.

2. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Included in general and administrative expense is an amount of \$12,820, being the Company's share of remuneration paid to directors and senior officers.

3. INCOME TAXES

For income tax purposes the Company is entitled to claim drilling, exploration and lease acquisition costs and tax depreciation in amounts which may exceed the related depletion and depreciation provisions reflected in its accounts. For the year under review the capital cost allowances claimed are not significantly different from the depreciation provided in the accounts. Expenditures remaining to be carried forward and applied against future taxable income are as follows:

Drilling, exploration and lease acquisition costs	\$948,000
Capital cost allowances	12,200

Management does not believe that it is appropriate to provide for income taxes deferred as a result of claims for drilling, exploration and lease acquisition costs; while the view of management conforms with general practice in the oil and gas industry and is accepted by accounting authorities outside Canada, it differs from the tax allocation basis of accounting recommended by The Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants under which an income tax provision is based on income reported in the accounts.

On a cumulative basis to September 30, 1970 the Company has written off in its accounts approximately \$846,000 in excess of capital cost allowances and drilling, exploration and lease acquisition costs claimed for income tax purposes.

AUDITORS' REPORT

To the Shareholders of

Royal Canadian Ventures Ltd.

We have examined the balance sheet of Royal Canadian Ventures Ltd. as of September 30, 1970 and the statements of income and deficit and source and application

We have examined the balance sheet of Royal Canadian Ventures Ltd. as of September 30, 1970 and the statements of income and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at September 30, 1970 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Calgary, Alberta
November 10, 1970

Royal Canadian Ventures Ltd.

ACREAGE HOLDINGS AT SEPTEMBER 30, 1970

PETROLEUM AND NATURAL GAS INTERESTS

PRODUCING P&NG LEASES	ACREAGE	INT. %	FARMEE OR OPERATOR
Alberta			
Clive	320	2.5	GOR Chevron Standard
Hussar	3,840	13.125	Mill City Petroleums
Hussar	1,920	4.375	" " "
Hussar	1,120	5	" " "
	<u>7,200</u>		
NON-PRODUCING P&NG LEASES			
Alberta			
Rainbow South	320	20	New Continental
South Thurston Lake	3,520	12.5	Gulf Oil Canada
Saskatchewan			
N.W. Arcola	640	16.6666	Mill City
	<u>4,480</u>		
P&NG LEASES & RESERVATIONS			
Alberta			
Cessford	160	5.	GOR Hudson's Bay Oil and Gas
Clive	320	2.5	GOR Chevron Standard
Clive	320	5.	GOR Syracuse Oils Limited
Saddle Lake	1,277	2.48	NCI Canadian Sulphur Dev.
Zama West	3,840	.75	GOR Amoco Canada Petroleum
	<u>5,757</u>		

Interest percentages, unless otherwise noted, are working interests
 GOR — Gross Overriding Royalty.
 NCI — Net Carried Interest.

MINERAL INTERESTS

BRITISH COLUMBIA

CLAIMS	NUMBER	INT. %	FARMEE OR OPERATOR
Highland Valley	21	15.	Alwin Mining Company
Highland Valley	84	50.	Royal Canadian Ventures
Babine Lake	107	14.2857	" " "
Cache Creek	36	"	" " "
Chuchi	16	"	" " "
Dardanelles Lake	17	"	" " "
Eagle Creek	22	"	" " "
East Barriere Lake	144	"	" " "
Forest Grove	5	"	" " "
Iron Mask	73	"	Great Plains Development
Kamloops Lake	22	"	Royal Canadian Ventures
Kliyu Creek	80	"	" " "
KN 921/9	3	"	" " "
Mons Lake	194	"	" " "
MR 921/9	24	"	" " "
North Barriere Lake	46	"	" " "
Spapilem Creek	226	"	" " "
Spring Lake	8	"	" " "
VM 82M/12E	78	"	" " "
	<u>1,206</u>		

LEASES

Iron Mask	2	14.2857	Great Plains Development
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COAL LICENCES

	ACREAGE		
Flathead	21,072	10	Rio Tinto Cdn. Exploration

SASKATCHEWAN

PERMITS			
Wollaston Lake	1,244,366	12.5% interest in 20% defined net profits interest	Gulf Minerals Company
Wollaston Lake	363,800	12.5	New Continental Oil Company
Wollaston Lake	345,000	20.	Westburne Petroleum & Minerals
Wollaston Lake	192,000	40.	Scurry-Rainbow Oil Limited
CLAIMS & CLAIM BLOCKS			
Head Lake	27,635	14.2857	New Continental Oil Company
Wollaston Lake	24 cl.	50.	Royal Canadian Ventures
Wollaston Lake	1 cl.	12.5% interest in 20% defined net profits interest	Gulf Minerals Company
Wollaston Lake	4,620	12.5	New Continental Oil Company

MANITOBA

CLAIMS & CLAIM BLOCKS			
Misty Lake	18,717	20.	Scurry-Rainbow Oil Limited
Misty Lake	6 cl.	20.	" " " "

NORTHWEST TERRITORIES

PERMITS			
Baker Lake	634,355	5.7143	Petrobec Limited
Baker Lake	124,190	2.2857	Fort Reliance Minerals
Baker Lake	480,279	10.715	Dynamic Mining Exploration
CLAIMS			
Baker Lake	791 cl.	10.715	Dynamic Mining Exploration
Baker Lake	75 cl.	5.7143	Petrobec Limited
Hjalmar Lake	227 cl.	14.2857	New Continental

VENTURES LTD.

Months ended March 31, 1970
(figures for 1969)

OME AND EXPENSES

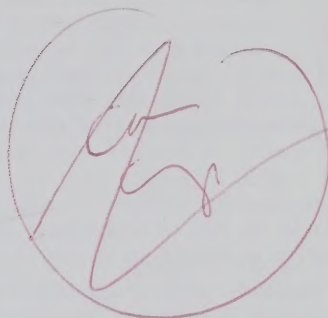
	1970	1969
	\$ 53,634	\$ 52,956
	14,358	13,831
	39,276	39,125
	375	414
	3,789	1,940
	2,143	—
	45,583	41,479
	18,956	23,332
	51,927	27,724
	70,883	51,056
	25,300	9,577
	—	201
	12,105	—
	3,824	11,000
	41,229	20,778
	1,421	199
	6,783	—
	8,204	199
	\$ 33,025	\$ 20,579

D APPLICATION OF FUNDS

	\$ 3,343	\$ 199
	1,008	—
	5,813	—
	—	21,781
	10,164	21,980
	25,300	9,577
	285	214
	—	334
	2,959	3,256
	28,544	13,381
	(18,380)	8,599
	261,360	85,954
	\$242,980	\$ 94,553

ent at year end)

AR01



ROYAL
CANADIAN
VENTURES LTD.

A member of the DYNAMIC GROUP



INTERIM
REPORT

March 31st, 1970

To the Shareholders:

NORTHERN SASKATCHEWAN

■ Gulf Minerals Company Operations

The Rabbit Lake uranium ore body in the Wollaston Lake area of the Province of Saskatchewan discovered in late 1968 by Gulf Minerals Company, a wholly owned subsidiary of Gulf Oil Corporation, has been declared by Gulf officials to be a viable mining project or, in other words, exploration work done to date has established an ore body of sufficient quantity and quality to proceed with the construction of a mill. However, there are two major obstacles involving political considerations and markets to be overcome before Gulf will be prepared to announce its construction plans.

On March 2, 1970, Prime Minister Trudeau announced in the House of Commons that the Canadian Government would be implementing regulations with regard to ownership in the Canadian uranium industry. On March 20, 1970, Energy, Mines and Resources Minister J.J. Greene made a statement in the House of Commons to the effect that the Government proposes to limit, by regulation, the extent of ownership of uranium producing enterprises in Canada by non-residents of Canada. Among other things, the Minister stated:

- That the regulations would distinguish between existing properties of demonstrated productive capacity and those developed in the future on the basis of exploration.
- That there would be a limit of 33% upon the aggregate foreign ownership of any uranium property of established productive capacity.
- That with regard to existing mines, the regulations will be effective as from the date of the Prime Minister's statement on March 2nd, but will not be retroactive in the sense of requiring foreign interests then holding more of the ownership than the prescribed limits, to divest themselves of surplus holdings.

With regard to the above item, Energy Minister Greene is reported to have told Parliament on April 10, 1970, that he felt the Gulf development fell within the retroactive guidelines and that Gulf would not be subject to the ownership restrictions. On May 5, 1970, Energy Minister Greene further clarified this situation to the extent that foreign controlled companies engaged in uranium exploration on March 2nd will have six years in which to establish the commercial viability of their properties in which event they would not be forced to reduce the level of their foreign ownership. We are informed, among other things, that

this latter announcement gives Gulf the confidence to proceed with an active program to find additional mines on the properties that are subject to our agreement.

As mentioned above, Gulf is not prepared to announce its plans to proceed with the construction of a mill in the area until the aforementioned Government regulations are officially introduced and their position thereunder is established. In the interim, however, and presuming a favourable status quo, Gulf has stated, among other things, that:

- If the two major obstacles involving Government legislation and markets are overcome, construction of a mill could start this year.
- Gulf must have assured markets since uranium at present is in surplus supply. However, in this regard, Gulf is of the opinion that it will be able to dispose of its uranium production providing the ownership situation aforesaid is favourably clarified.
- While Gulf does not want to divulge the size of the ore body or the grades of ore, it is obvious that to justify a mill with a capacity of 2,000 tons of ore per day, producing 2,000 tons of uranium oxide per year and involving an investment of \$50,000,000, the ore body must be big.
- The mill would take three years to complete and would eventually employ about 400 highly skilled workers. The design would facilitate very quick and easy expansion.
- For purposes of comparison, preliminary engineering designs for the mill with an initial annual capacity of 2,000 tons of uranium oxide, would make it capable of serving the needs of four of the largest nuclear reactors built, or about 25% of the total current U.S. demand.
- The mine will be an open pit operation, as opposed to a shaft mine.
- The development of a mine and mill will involve the building of a new town-site and in this regard, according to Premier Thatcher, the Department of Municipal Affairs of the Province of Saskatchewan is already looking into this situation.

We are hopeful that the regulations referred to herein will be officially introduced within the next few weeks and that Gulf will be able to announce definite plans concerning construction of a mine and mill in this area.

Royal Canadian Ventures Ltd. has a direct 12.5% interest in 20% of the net profits accruing under the terms of the agreement entered into with Gulf Minerals Company. This agreement covers approximately 1,244,366 acres of permit lands in the Wollaston Lake area and includes the Rabbit Lake ore body.

Shareholders of the Company will be kept informed concerning further developments.

■ Wollaston Lake Fold Belt — Joint Operations

During 1969, Royal Canadian Ventures Ltd., on behalf of itself, New Continental Oil Company of Canada Limited and associated partners, Westburne Petroleum & Minerals Ltd. (formerly Excel Petroleum Ltd.) and Scurry Rainbow Oil Limited, conducted an exploration program on three permits in this area containing approximately 550,000 acres. The entire cost of this program was borne by our associated partners with Royal Canadian Ventures and New Continental Oil retaining a minimum interest of 40% in the properties. The program consisted of a combined airborne electromagnetic, aeromagnetic and spectrometer survey over all of lands with flight lines on a quarter mile spacing. Anomalous areas from this survey were located on the ground and after geological evaluation and rating, certain ones were covered by ground geophysical parties. At the same time, ground geological parties conducted geological mapping, rock sampling and detailed geological examination of airborne and ground anomalies.

Certain of the anomalous areas on these lands were selected for a winter geophysical and drilling program. This operation commenced in January, 1970, and one drill was placed on the property to commence evaluating conductors found during the airborne survey and ground follow-up. This drill has been working continuously in this capacity since January, and to date several anomalies have been evaluated. Although the conductors indicated by the airborne survey have been encountered in every case, no mineralization of commercial value has been found to date. At the same time, geophysical exploration on the ground has been in progress, with the first phase recently completed.

BRITISH COLUMBIA

■ Barrier Lake Area

An exploration agreement between Royal Canadian Ventures Ltd. and other members of the Dynamic Group of companies, and Ray Rock Mines Ltd., Toronto, Canada, has been completed, whereby Ray Rock has the right to earn up to a 51% interest in approximately 140 mineral claims by carrying out an exploration and drilling program with work scheduled to commence immediately. The block of claims which are located approximately 50 miles north/northeast of Kamloops, British Columbia, contain an interesting porphyry type copper discovery made by the Group last fall on the basis of diamond drilling done at that time.

■ Iron Mask Area

Under the terms of an exploration agreement between Royal Canadian Ventures Ltd. and other members of the Dynamic Group, and Great Plains Development Company of Canada Ltd., involving a large group of claims in the Iron Mask area southwest of Kamloops, British Columbia, drilling has been proceeding since early in the new year. The prospects here are two interesting copper anomalies outlined earlier by geophysical, geochemical and geological exploration. Results of drilling done to date are very encouraging.

NORTHWEST TERRITORIES

■ Baker Lake Region

Following is the complete text of a press release made jointly by New Continental Oil Company of Canada Limited on behalf of the Dynamic Group of which Royal Canadian Ventures Ltd. is a member, Petrobec Limited (a subsidiary of Westburne International Industries Ltd.) and Citizens Pipeline Limited, on April 21, 1970, relative to work completed to date in the Baker Lake region of the Northwest Territories and plans for the remainder of 1970:

For Release Noon, April 21, 1970

Summary

- *Disclosure of discoveries of molybdenum and silver in addition to uranium at Baker Lake, Northwest Territories.*
- *Mineral holdings increased to 627,000 acres.*
- *Commencement by about May 1, 1970, of an extensive exploration and diamond drilling program.*

Two significant mineral discoveries were made in the Baker Lake region of the Northwest Territories by New Continental Oil Company of Canada Limited and its associates, Petrobec Limited of Montreal, a subsidiary of Westburne International Industries Ltd., and Citizens Pipeline Limited, a wholly owned subsidiary of Lochiel Exploration Ltd. of Calgary. The discoveries, both believed to be of hydrothermal origin and ore grade, are located on Exploration Permit No. 109 and resulted from ground followup to an airborne radiometric survey carried out by Scintrex Limited of Toronto. Consulting Geologists for the project are A.C.A. Howe International Limited, Toronto. Significant minerals encountered are uranium, molybdenum, and silver.

The first discovery was made on an anomaly located in the Kazan Sandstone where initial prospecting and trenching has been completed and a Winkie diamond drill (a prospecting drill used for shallow testing) was employed to drill one hole at -45 degrees at right angles to

the structure to a depth of 46 feet. Chemical analyses over this 46 feet have yielded a continuous U_3O_8 content with an average of 0.077% (1.54#/Ton); also 0.025% molybdenum sulphide and traces of gold and silver.

The second discovery was made on an anomaly located approximately six miles north of the first, and is associated with a geologic feature in the basement granitic complex. A radioactive zone has been delineated by prospecting, and some trenching has been done. A hole drilled at -45 degrees at right angles to the structure to a depth of 36 feet with a Winkie diamond drill, yielded a chemical analysis of 0.338% U_3O_8 (6.76#/Ton) over a continuous 22-foot interval from 11 feet to 33 feet. The same drill hole yielded by chemical analysis 0.658% molybdenum sulphide over 14 feet, or 0.37% over 26 feet. One 2-foot sample averaged 2.00% U_3O_8 , 1.50 oz. of silver and 2.90% molybdenum sulphide.

A second hole on this anomaly, 220 feet from the first, was drilled at -45 degrees at right angles to the structure and gave erratic readings over its 38 feet of depth, ranging from nil to 0.06% U_3O_8 (1.2#/Ton). By chemical analysis the same drill hole indicated an average of 0.102% molybdenum sulphide over a length of 32 feet.

Both discoveries are highly encouraging because of their location on tide water and its beneficial effect on the potential economic development of the area.

Following the discoveries, 75 mineral claims were staked covering anomalies lying outside the permit areas. Recently three additional mineral prospecting permits have been acquired on trend by the group, bringing the total area now under permit to approximately 627,000 acres.

A large scale exploration and diamond drilling program is now being planned to commence in this area about May 1, 1970.

The project is owned 40% by the Dynamic Group, 40% by Petrobec Limited of Montreal, a subsidiary of Westburne International Industries Ltd., and 20% by Citizens Pipeline Limited, a wholly owned subsidiary of Lochiel Exploration Ltd. of Calgary.

A. P. Newall, Jr., President
New Continental Oil Company
of Canada Limited

Respectfully Submitted
On behalf of the Board of Directors
ARCHIE P. NEWALL, Jr., President

Calgary, Alberta
May 15, 1970

ROYAL CANADIAN

Unaudited Report for the S
(With comparati

STATEMENT OF IN

REVENUE

Crude oil and natural gas sales less royalties
Less production expenses

Royalties
Interest
Other

EXPENSE

Administrative and general
Exploratory costs and property carrying costs

CASH LOSS FROM OPERATIONS

ADD

Abandonments - well development costs
Loss on sale of properties
Depreciation and depletion

DEDUCT

Gain on sale of equipment
Gain on sale of securities

NET LOSS FOR THE PERIOD

STATEMENT OF SOURCE

SOURCE OF FUNDS

Proceeds from sale of properties and equipment
Proceeds from sale of investments
Gain on sale of marketable securities
Decrease in performance deposits

APPLICATION OF FUNDS

Cash loss from operations
Petroleum and natural gas and mining interest
Well development costs, including dry holes
Production and other equipment

INCREASE (DECREASE) IN WORKING CAPITAL

WORKING CAPITAL, beginning of period
WORKING CAPITAL, end of period

(subject to ad